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# PROPOSED INTERSTATE ACCESS REGULATION

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# Citizens Communications appears to have three options for regulation of interstate access services

- Continue under the traditional price cap mechanism
- Adopt a modified version of the CALLs plan
- Petition the FCC for a return to rate of return regulation

# The CALLs plan helps to stabilize the "price cap" mechanism, but is currently designed to fit the needs of larger price cap LECs

- 0.0055 price floor based on large company costs
- Pricing flexibility tied to CCL elimination
- Continuation of X-factor based on large company productivity opportunities
- Elimination of low end adjustment mechanism
- No relief from reporting requirements

## Unlike many larger companies that are repositioning their assets to focus on metropolitan markets, Citizens Communications is a rural price cap carrier expanding its footprint in the face of competition

- Acquisitions from GTE and US West will double our size by mid year 2001
- Rapidly increasing investment to modernize network in acquired properties
- 172 requests for interconnection
  - Less customers to absorb costs of OSS, LNP and increased reporting requirements
- Lower customer density and efficiency opportunities
- Interstate rate structure more like smaller ILECs - 40% of revenue from interstate access and USF

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## Rate of return regulation would be one option as Citizens increases its investment in network and OSS facilities to accommodate our growth (acquisitions) and the needs of competitors

- Short term increase in revenues to finance investments for the acquired properties
- Alignment of rates with our costs, not large company costs
- Mechanism to finance investment in OSS and other system changes
- Align our company with smaller ILECs as access and universal service reform are addressed

**However, in a competitive environment, the CALLs plan provides customers immediate benefits and stabilizes the *"price cap"* mechanism**

# Based on our understanding a modified CALLs plan would incorporate the following rate and structural changes:

- Local Switching:
  - 25% reduction 7/1/00
  - 11% reduction 1/1/01
- X - factor frozen & targeted to traffic sensitive elements for 5 years
- NTS Rebalancing
  - Eliminate non multi-line PICC 7/1/00
  - Maintain $4.31 cap for multi-line PICC
  - Multi-line SLC: - No change
  - Single line SLC: - $4.00 7/1/00<br>- $5.00 1/1/01<br>- $6.00 7/1/02<br>- $7.00 7/1/03
  - Terminating CCL eliminated 7/1/00
  - New USF offset for shortfall each year
- USF funding transferred from CCL to optional end user charge

# With some modifications, Citizens would be able to accept the CALLs plan

- Price floor based on Citizens TELRIC switching costs - 0.0095
- X-factor consistent with productivity opportunities for a rural ILEC
  - Minimum of 1.2 lower than large company factor
- Pricing flexibility consistent with larger companies[1]
  - SLC deaveraging (effective 7/1/00)
  - Relief consistent with FCC 8/5/99 pricing flexibility order
- Eliminating of CAM and ARMIS reporting requirements for
  - Predominantly rural "price cap" ILECs, or
  - Price cap ILECs with less than $7B in aggregate revenues
- Adoption of current Citizens Communications rates for acquired US West and GTE properties
  - Retention of LFAM in the alternative

[1] CCL and PICC elimination not required.

# Citizens Communications urges the FCC to adopt a modified CALLs plan consistent with the needs of a predominantly rural price cap carrier

- Immediate benefit to access customers exceeds traditional price cap or ROR regulation
- Opportunity for rural carrier to respond to competition
- Better alignment of costs and revenues
- Balances customer benefit with regulatory stability
- Provides the FCC almost unanimous acceptance of CALLs